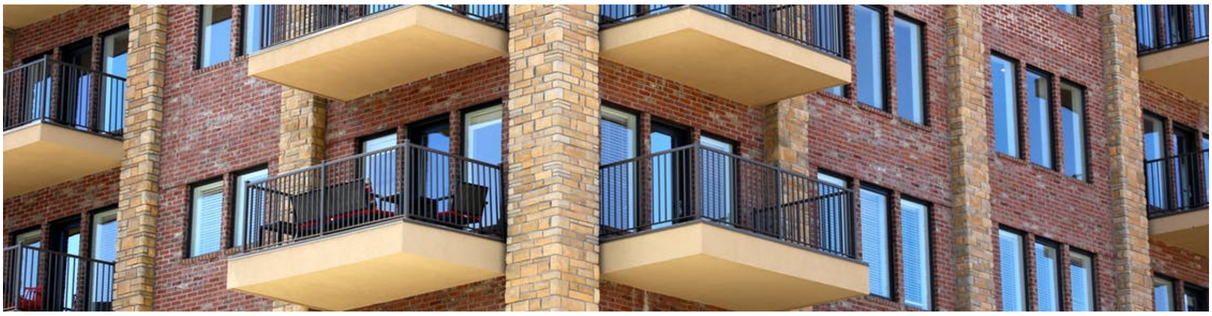

FACTSHEET

UK Property Investment and Tax

This factsheet deals with some of the most common questions that arise when someone owns a buy-to-let property. Property income is any income from furnished, unfurnished, commercial and domestic properties and from any land. For UK residents this includes land and property situated anywhere in the world.

Types of Rental Property

Property income includes the following: -

Furnished Holiday Lets (FHL)

A property will qualify as a FHL, if it is situated in the UK or the EEA, furnished, and if it is let out on a commercial basis. It must be available for letting to the public for at least 210 days, and actually be let out for at least 105 days, during the tax year. The same person cannot normally occupy it for more than 31 consecutive days. There are tax advantages if a property qualifies as an FHL, such as the profits can qualify as relevant earnings for pension purposes and capital allowances may be claimed. If the property is sold, there are also certain capital gains tax reliefs that can also be claimed. The property may additionally qualify for IHT business property relief. However, losses can only be set against profits of the same UK or EEA FHL business.

Rent-a-room

This provides a tax incentive for homeowners to let out a spare room within their main residence. Up to £7,500 of gross rents per property, per year is exempt from tax.

Furnished property

For furnished residential lettings, the 10% wear and tear allowance is no longer available. From April 2016 this was replaced with a relief that enables landlords to deduct the costs they actually incur on replacing furnishings in the property.

Unfurnished property

A claim can be made for capital allowances on assets used in the running of the property business. For example, a vehicle to collect rents and inspect property. For non-domestic lettings and common areas of multi-occupancy buildings, capital allowances are also available.

Jointly owned property

Where the joint owners are husband and wife or civil partners, profits for tax purposes are treated as arising equally, even if the property is not owned as such. You can however ask for the share of profits and losses to match the proportion in which the property is owned if this is more tax efficient. Other joint owners may elect, before the start of the tax year, to be assessed on rental income in whatever proportion they jointly choose.

What expenses can I set against my rents?

The general rule in relation to claiming expenses against your rental income is that the expense needs to have been incurred wholly and exclusively for the rental business. You cannot deduct expenses of a capital nature, though you can normally deduct the cost of ordinary expenditure on repairs (see 'Allowable expenses for property businesses' factsheet).

What is an allowable repair?

They are expenses that prevent the property from deteriorating, for example exterior and interior decorating or mending broken furniture. You cannot deduct the cost of capital expenditure incurred on improvements, additions and alterations to the property. Allowable examples could include roof repairs, replacement kitchens, bathrooms and windows.

Non-resident landlords (NRL)

As a non-resident landlord, unless you have had authority from H M Revenue & Customs to receive your rental income without deduction, a withholding tax of 20% will be deducted from your net rental income before you receive it. You can apply to HMRC for approval to receive the income from your rental business with no tax deducted, if your UK tax affairs are up to date or if you do not expect to be liable to UK income tax.

Capital Gains Tax (CGT)

If you sell an investment property you will suffer CGT on any profits you make, over and above your annual exemption for gains in any year. If, at any time, you have occupied the property as your main home, then you will normally be able to claim exemption from tax in respect of that period, plus your last 18 months of ownership. You may also be eligible to claim a further exemption on gains of up to a maximum of £40,000.   There are opportunities for advance planning, which could result in substantial tax savings.

Stamp Duty Land Tax (SDLT)

SDLT is levied on the purchase of all UK properties. Current rates for buy to let residential property are:

Value up to £125,000	3%
£125,001 to £250,000	5%
£250,001 to £925,000	8%
£925,001 to £1.5 million	13%
Over £1.5 million	15%
>£500,000 for certain non-natural persons	15% *

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There is a flat rate charge of 1 % on residential leases over £125,000 and non-residential leases over £150,000. The value is calculated by reference to the net present value of the rent on the new lease. Where the value of the lease is in excess of £5m, the rate is 2%.

Current rates for non-residential or mixed use land or property are:

Under £150,000	0%
£150,000 to £250,000	2%
Over £250,000	5%

Your responsibilities

HMRC must be advised of any new sources of income by 5 October following the end of the tax year in which this income commenced. If you are issued with a Tax Return Form, it must be completed and submitted to HMRC by 31 October if submitted on paper, or 31 January if submitted electronically, following the end of the tax year.

There are automatic penalties levied by H M Revenue & Customs, which can be substantial for failure to notify on time and failure to submit your tax return on time.

For more information

If you own, or are considering purchasing, property in the UK contact us today to discuss your individual circumstances:

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